Business innovation and competitiveness in the textile and garment industry

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Fashion garment is a rapidly expanding market at global level as there are new population layers with increasingly higher incomes entering the consumption society.

The integrated production-retail model is consolidating all over the world, and Spain and Catalonia have two global leaders, Inditex and Mango, with two different strategies, but both equally successful, that have encouraged a whole set of relevant followers.

Fashion, a consumption driver

Fashion as a social phenomenon has always had an influence on garment consumption through the dichotomy of want of uniformity, i.e. dressing like the rest, and differentiation. Although it has always been around as a concept, economic relevance of fashion came about with democratisation of the phenomenon, that is, as it became affordable to large populational groups following development of mass society and increase in the living standard.

Development of the industry has changed the market structure, leading to rapid growth of fashion products, while the more standardised or classical ones have been declining, although a tip with elite products is kept at a great variation in trends and limited dissemination.[1]

Influence of fashion has determined some new specificities of the garment product based on the reduction of its life cycle, increase in variability of its features (line, colour, texture and presentation) and rapid change in consumer preferences, who increasingly buy on impulse. Hence fashion demand becomes difficult to predict, with the logical consequences we will analyse further on.

Change in retail

Apart from the product and consumer behaviour, there has also been a great change in the retail system, which was traditionally based on independent multi-brand stores. They worked commercially with a season scheme (spring/summer and autumn/winter) plus sale as a tool to reduce unsold stock and prepare the entry of new products. The role of retail in the textile chain was basically that of brokerage, i.e. it served as liaison between offer by the industry and demand by consumers.

Starting in the 1980s, Inditex developed the store chain model under one single brand at big scale. Their impressive success lies in that it went according to change in the garment consumption patterns described above.

The model has been thoroughly copied with the creation of new garment franchise chains and brands, a management scheme of the chain system including individual retailers and reducing direct investment by the franchise/brand owner, who can be a textile manufacturer or directly a wholesale trader.[2]

The success of Inditex lies in that it went according to change in garment consumption patterns.

The success of the chain and franchise system has been to generate a fashion offer addressed at specific market segments, adapted to the needs of target consumers segmented by gender, age, purchasing power, fashion awareness, etc. Besides, chains present their products in an appropriate and attractive environment for the consumer according with the overall brand image and the decoration of stores. Thus it is often said that chains and franchises sell a given concept or lifestyle rather than specific products.

Growth of chains and franchises has occurred at the expense of multi-brand retail trade, which has been progressively losing market share out of a dominating position since the mid 1980s, making today for just over one third of garment retail.

Apart from its commercial success, the chain and franchise model creates many economies of scale thanks to joint store management and especially advanced logistics systems.

Chain development has been encouraged by new commercial planning like shopping malls, although chains are well present in city centres, by which their offer is quite homogeneous regarding their location.

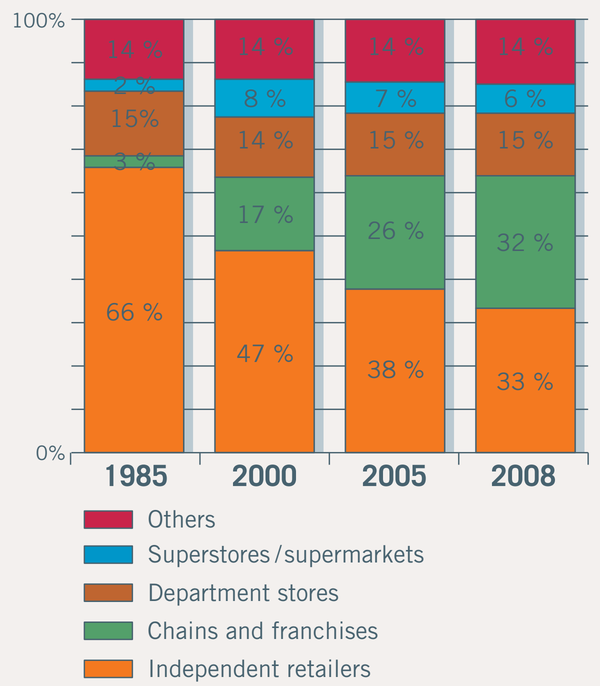
The current retail scenario is completed with big surfaces: superstores and supermarkets[3] and department stores (El Corte Inglés).[4]

In 2000, Mango was among the first companies implementing internet sales, and Inditex has just announced the launch of this service. Although its share in overall sales is limited, it seems to be an interesting way of reducing stocks.

Despite a strong decline in garment consumption due to the economic crisis, chains and franchises have increased their market share by almost four percentage points between 2007 and 2009, taking one third of the Catalan garment market, estimated in €5.2 billion in 2009.

***Graph 1.* Evolution of garment retail channels**

(in % on sales value)



Source: TNS Worldpanel Fashion

▲ In the last eight years, individual retailers have progressively lost market share to the benefit of chains.

Offering lower prices than the market average and the creation of new commercial formats at cheaper prices have been decisive factors in the progress of chains and franchises. They have also been very dynamic in tackling the crisis through expanding outlets. Inditex has even developed stores with the Lefties brand, specialising in clothes from the previous season to counteract new low-cost chains like Primark. Others have adapted part of their offer to the new consumer situation, creating collections at lower prices, like Mango with the Think up initiative or Rosa Clarà with the Aire Barcelona brand.

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In fact, consumers have tackled the crisis with a modest reduction in purchase regarding the number of items bought, but they have also clearly gone for cheaper offers.

A new business model

Traditional textile chains were made of a whole set of cross-related activities in which each phase supplied the next with products and/or services down to the offer to the end consumer through retail. Generally speaking, each company used to specialise in one phase. This meant very long manufacturing processes and a high volume of intermediate stock to allow adjustment between offer and demand in the different production phases.

Thus a piece of garment could take up to one year to be produced from thread manufacturing to tailoring the piece, including weaving and finishing. Besides, the retail system, which was supplied according to a seasonal scheme, could have the piece in the store or the warehouse up to two or three months from its reception to sale. The traditional scheme was based on the domination of standardised products with low variation and fashion oriented from production.

Of course, having such a long and hardly reactive production and retail chain was inconsistent with the speed the world of fashion was taking. Hence the interest of going from a production and industry-driven model (push supply chain) to a consumption and distribution-driven one (pull supply chain).

Despite its long tradition in textile at source (yarn and cloth), Catalonia did not push its garment industry until the 1960s, and once it did it, it followed the factory company model, with integrated production systems in which the most important was to have offer capacity. These were years of big expansion of the garment industry around Barcelona and knitwear in the Maresme and Anoia counties, among many other places in Catalonia.

Modernisation of the society, opening abroad and adoption of new international trends accelerated the introduction of fashion as a driver of consumption and industrial transformation. The big change came about after the 1973 crisis, when high output at production facilities, the economic crisis and a shift in consumption habits had offer exceed demand by far, which caused a move of the centre of gravity from the market to the consumer. This is how the vendor market was replaced by the buyer market, which has become a key in the whole process.

This change conferred a new role to retail that, being closer to the consumer, absorbed functions from the industry, like product definition and design and price strategy. It consequently gained high bargaining power, eventually imposing its conditions to the rest of players in the textile chain.[5]

Adaptation of companies occurred in different ways, like quick response and introduction of flexible, short-cycle production systems generally based on just in time (manufacturing necessary products only, so the process is done without interruption or storage and with maximum quality).[6] In this scheme, logistics, encompassing from supply management to transport and distribution of pieces once they are made, became the key business item. Retail stores of big chains are in fact those dragging the whole process as they are the ones close to the market and interpret best the taste and needs of their target.

Adaptation of companies occurred in different ways, like quick response and introduction of flexible, short-cycle production systems based on just in time.

Implementation of these new strategies is based on the following concepts:

- Improved cooperation and coordination between companies in the chain.
- Adaptation of the company's product and marketing strategy.
- Electronic information circulation.
- Adoption of new production technologies and systems.

This change led to a new business model with the following features:

- Integration with distribution to approach consumption and improve information on consumer wishes.
- Focusing on competitive factors: design, logistics and marketing.
- Very reduced own production structure, as this function is fulfilled by a large amount of more or less stable subcontractors. In some case, production has been relocated and is under control of the company.

- Relevance of logistics as a strategic tool to adequately manage the production and distribution chain of the company.

This sort of company, with very diverse and still few defined models, goes beyond the traditional factory company concept, approaching that of a service company.

Consolidation of globalisation of the model

Globalisation in garment has accelerated extraordinarily in the last years due to the consolidation of China as a global industrial powerhouse and the expansion of the model towards other Asian countries.

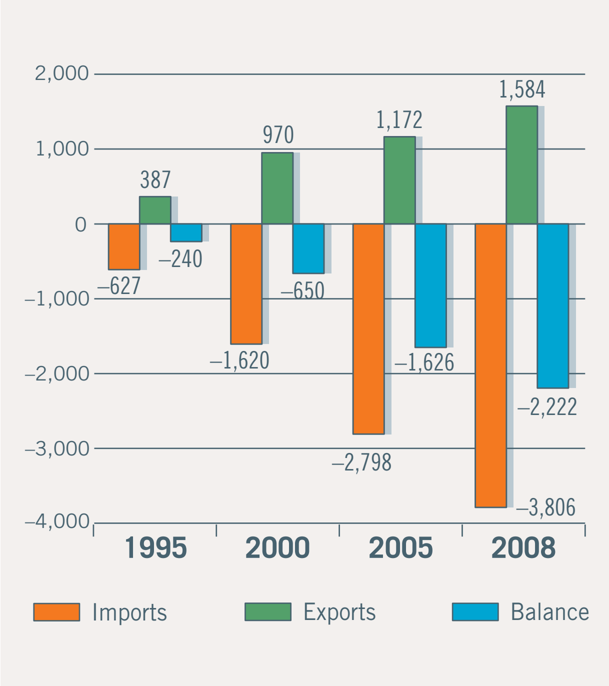
However, the ultimate momentum for the strategy of advanced countries to relocate the phases of garment production involving more labour to emerging low-cost countries was made possible by liberalisation of global textile exchange, which led in 2005 to the elimination of quantitative limits for textile products (quota). This facilitated access of products from emerging countries to the different consumer markets. ICT, improved communications and reduced transport costs did the rest.

The model was completed with relocation of backup production to low-cost neighbouring countries. Thus Morocco has become a preferred producer for the main Spanish and Catalan garment brands in recent years.[7]

Globalisation of retail

The Spanish and Catalan chain and franchise model in the domestic market has been so successful that the main brands, once they minimally consolidated in the Spanish market, went for internationalisation. In 2008, Inditex exported two thirds of its turnover to a total 73 countries in four continents, though with a higher concentration in Europe.

***Graph 2.* Catalan foreign garment trade**



Source: CITYC

▲ Globalisation has meant a bigger imbalance between imports and exports..

The crisis in the domestic market is pushing even more international expansion, and 95% of new openings by Inditex will be in foreign markets in 2009, especially in Asian countries led by China and India. Their goal is to reach 20% of their sales in these markets in 2012.

Although at a turnover considerably below that of Inditex, Mango has a slightly higher export rate at 77%, encompassing ninety countries. It is also pushing its expansion in China and India. Only in China it already has fifty stores, though it operates as MNG there, as the Mango brand is already registered in the country.

Despite the export dynamism of these big chains, the balance sheet has become highly negative, as most production is done abroad and imported to be immediately redistributed from the logistic centres to the retail networks all over the world.

Successful business models

In the last years, several companies have consolidated strategies along these lines, some of which we will now analyse.

The Mango leadership

Mango is the most successful Catalan example in the garment industry. Created in 1984, it reached a turnover above €1.5 billion 25 years after, through 1300 stores spread over more than 90 countries, consolidating a brand whose value has been assessed by Interbrand at over €700 million.

Different from the Inditex model that enlarged its business segment with different independent brands, Mango concentrates on a very precise customer profile, young urban women, expanding this concept internationally, albeit adapting it progressively to market change and the evolution of its target customers.

▲ Having been created in 1984, Mango is the most successful case in the garment industry.

Whereas for Inditex, stores are the only marketing tool, Mango invests €30 million a year in advertising, close to 2.5% of its turnover. Its advertising tends to relate the brand with celebrities from different countries and creates initiatives like the golden button prize for the best designs, having achieved considerable media relevance.

Mango has its production totally localised, with roughly 140 suppliers all over the world. Each region specialises in the sort of garment it is most competitive in.

40% of Mango stores are own, and the remaining 60% are managed by franchising. This system allowed fast international development and customising each store.

Their strategic plan intends to double the company size in the next ten years to a €3 billion turnover, with 2500 sales points all over the world –an ambitious expansion plan.

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One part of the Mango success lies in its logistic system, with 150,000 sqm at its headquarters in Palausolità i Plegamans, completed by its warehouse in Parets del Vallès, specialising in folded pieces. A new centre in Lliçà d'Amunt is planned to be built in 2010 to support their ambitious expansion plan.

Mango has an internal promotion plan allowing leading positions to be always taken by people trained at the company.

This logistics investment in areas close to its headquarters will allow the company to close down its warehouses in New Jersey and Singapore, though it will keep its logistic centres in Shenzen and Hong Kong, from where production is controlled.

The explanation for this change lies in Catalonia's logistic competitiveness in textile garment, based on its shipping capacity to Asian producing markets, which makes up for higher land prices and urban planning difficulties for their facilities. In fact, a part of the Inditex group logistics is also located in Catalonia.[8] In any case, increasing pressure by the Plaza logistic centre in Zaragoza needs to be considered.

Human resource management is also a key in the success of Mango. Counting central services and own stores, the company has close to 8000 direct and roughly 22,000 indirect employees. 80% are women with an average age of thirty. Mango points out that it has an internal promotion plan allowing leading positions to be always taken by people trained at the company.

Desigual: a very good learner

Desigual was created in 1984, but its true expansion began in 2002 after hiring a professional general manager.

Within the last seven years, it developed from seven to 150 own stores and its turnover will reach €275 million in 2009, with a 70% sales increase in the last year reaching nine million pieces sold.

Desigual is creating up to 2000 new models a year in its four lines (woman, man, child and accessories), with a colourful informal design featuring much graphics, for which it is considered to bear a certain similitude with Custo Barcelona, though its prices are substantially lower.

Desigual products are sold through three channels: 150 own stores, 5800 multi-brand sales points and 500 areas in department stores. It recently signed an agreement with Macy's department stores to open corners and push the growth of the brand in the American market.

Its immediate goal is to reach a €500 million turnover in 2010 by means of strong international expansion. In fact, exports will be higher than sales in the Spanish market in 2009. The United States and China are its immediate targets and their plans are that sales will be equally distributed across America, Europe and Asia within five years.

Consolidating this project will basically depend on the maturing process of its design and having enough resources to finance its expansion plan.

Sita Murt: from production to design

Esteve Aguilera is a family-based textile company dedicated to female garment with its headquarters in Igualada and the commercial name Sita Murt, its designer and current owner.

One decade ago, a fundamental strategic change was decided, based on turning the company towards a select design product, entering direct distribution and professional management. The right choice of this new strategy has shown in rapid growth, from a €7.2 million turnover in 2004 to €13.4 million in 2007 and €20 million in 2008, a strong expansion with own stores. This has also been compatible with an increase in its profitability, at €1.4 million in 2008.

The company has 1900 multi-brand sales points in Spain and abroad, a part of which are corners in department stores, and twenty own stores all over Spain. The main target markets are the Iberian Peninsula and the Mediterranean.

Sita Murt offers a customised product aimed at an urban female segment between 30 and 45, with a medium-high income level. Its expansion is based on opening own stores, which allows it to provide very customised care and loyalise customers.

▲ With the commercial name of Sita Murt, the company Esteve Aguilera bases its strategy on offering a select design product, entering direct distribution and professional management.

The company considers that its exclusive brand strategy will adequately cover the Spanish market with 25 own stores, and once this goal is achieved, it will expand internationally, starting with the French market, a process that started in 2009.

Niche strategy. Wedding fashion

Spain's lace tradition has made it the world leader in wedding fashion, a branch generating a €1.5 billion turnover. Two of the three market leaders, Pronovias and Rosa Clarà, are Catalan companies.

Created in 1968, Pronovias started its international expansion in Europe in the 1980s and entered the American market ten years later. They have currently 150 own stores and are present at 3800 sales points in seventy-three countries. Sales abroad are 70% of the total. With a turnover of €150 million, they are leaders in Spain and among the world's first in their segment.

Pronovias and Rosa Clarà created collections by renowned designers, strengthening their brand image, an essential factor in the wedding fashion market.

Created in 1995, Rosa Clarà had a similar development and has now seventy own stores with the Rosa Clarà brand and about 25 with Aire Barcelona, apart from being sold at 1500 sales points. The international market makes for 40% of their overall €60 million sales.

Both companies created collections by renowned designers, strengthening their brand image, an essential factor in the wedding fashion market, which not only includes bride dresses but also ceremony dresses and accessories.

The success keys of the model

Despite the deep consumption crisis, all analysed companies have a strong growth in turnover and, as far as is known, also in profitability.

It is thus interesting to single out their common points:

- An integrated production and distribution model, with production mostly located in Asian and Northern African countries and logistic centres in the Barcelona area.
- Very slim company structure based on design and logistics as points of value.
- A strategy clearly focused on a brand customising a product, although other companies do so based on a designer.
- A clear trend towards increasing direct distribution by means of own or franchised stores as opposed to multi-brand retail trade.

Despite the crisis, all analysed companies have a strong growth in turnover and profitability.

- A family-based company structure, yet with mostly professional management, in which the designer-manager binomial is a key to success.[9]
- Strong orientation towards foreign markets, which has increased following a strong decline in domestic consumption.

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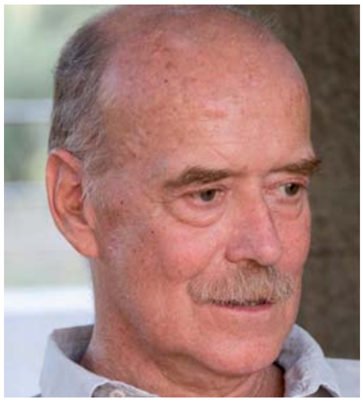

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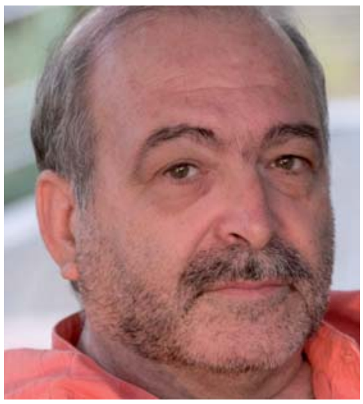

Notes

1. While the elite brands are genuine creators setting trends, the success in big distribution design relies on knowing the wishes of consumers, so their design is based on both guessing future fashion trends and assessing the degree of acceptation of products among the target public. In this respect, the staff at their stores plays a key information role in conceiving new products.

2. Whereas Mango, Custo Line and Desigual come from commercialisation, Sita Murt, Rosa Clarà and Punt Roma were formerly manufacturers.

3. This channel has considerably enlarged its offer in garment products as an addition to the traditional food and household product offer.

4. El Corte Inglés has a specific garment offer with its own brand and corners with other brands acting like small shops, and they are developing an own chain with the Sfera brand (99 stores, €171 million turnover, but still with negative results: €18 million loss in 2008).

5. Almost half the production of the Inditex group is done by subsidiaries located in more competitive countries. For the rest, the group relies on a range of domestic and international suppliers in order to have a wide supply base and keep a high bargaining power.

6. The ultimate solution is provided by the producer-retailer model, with a chain of own and franchised stores and a strategy of constant product renewal and very short production time. Inditex affirms that within thirty days, they are able to design, manufacture and distribute a new piece of garment to any store in the world.

7. According to the Inditex group, 60% of their suppliers are located in Europe and the Mediterranean basin and 35% in Asia. Basic products are usually manufactured in Asia, while more specific ones and backups are made in Morocco. In Tangier, half the employees in this textile cluster (30,000 people) work for Inditex. The salary cost per employee is roughly $2 per hour, almost double the cost in China but six times less than in Spain.

8. In 1995, the logistic centre of Massimo Dutti was set up in Tordera to create synergies with its fabric supplier Fibracolor. In 1998, Bershka logistics came in, and three years after it was Oysho. Given the expansion needs, a new specific centre for Bershka was created in nearby Palafolls in 2009, with a handling capacity of 80 million pieces. Besides, there is a third centre in Sallent where the Stradivarius logistics is centralised. In fact, almost a quarter of the 4400 logistics employees at the Inditex group are based in Catalonia.

9. Management professionalisation is a key to develop family-based companies, but in the case of fashion, this becomes even more important. On this subject, cf. the article by Marta Camps and Inmaculada Urrea, «Fashion and talent, an infrequent entente», in *Paradigmes* issue no. 1.